RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

P. O. Box 1759, La Jolla, California 92038
Minimum of 26 Letters per year – $150 Annually
Registered with the Securities and Exchange Commission

February 13, 1980 **LETTER 776**

Feb. 1, DJIA 881.48; PTI 1201; A-D Ratio –17.10
Feb. 8, DJIA 895.73; PTI 1215; A-D Ratio –17.11

CAPSULES: Dow Industrials--bullish signal given by moving averages on January 18 still in force. But Dow must better 897.61 to *confirm* new record Transport highs.
A-D Ratio– neutral but diverging slightly (downward) from major Averages.
Primary Trend Index--bullish and at new record highs.
Gold/Stock ratio--3 week average of the ratio turned down (in favor of stocks) for first time since mid-November.
Bonds--minor trend now bullish following super-oversold condition (brought on by worst bond crash in modern history).

THE PICTURE: Battle cry for the '80's from Mr. Celso Ming, Brazilian economist upon noting that Brazil is drowning in debt but nevertheless may have to go to the banks for another $15 billion just to stay afloat: ***"If I owe a million dollars I am lost. But if I owe $50 billion the bankers are lost."***

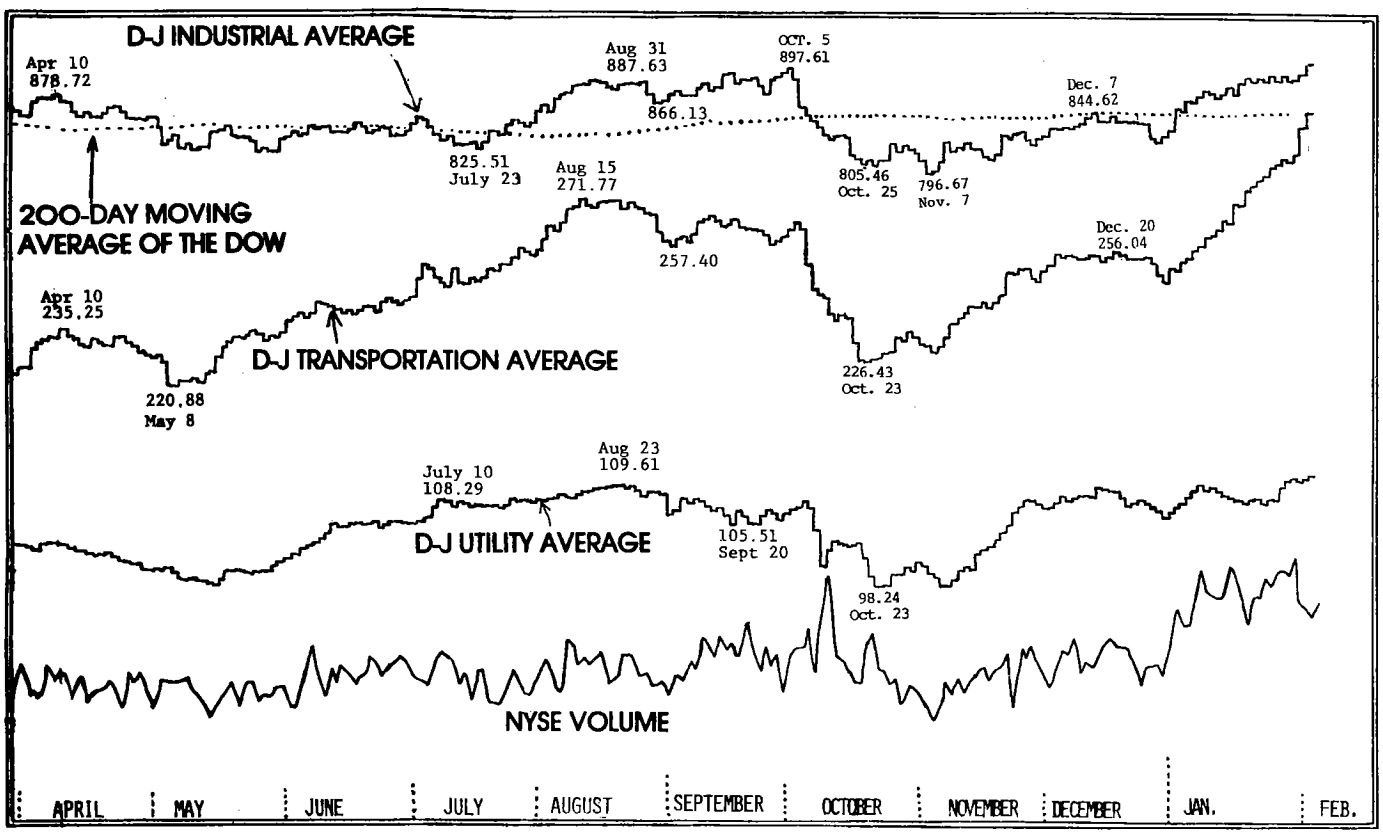
* *

Jim Dines has already named them, "The Awful Eighties," and he predicts that the Awful Eighties will be the prelude to the "Golden Nineties." Jim McKeever talks about the 1960's as the "decade of prosperity," the 1970's as the "decade of change" and the 1980's as the "decade of confrontation." Combining the two predictions, we might look on the 1980's as the "Decade of Awful Confrontations."

Obviously, nobody knows what the '80's have in store for us, but I do have very strong suspicions. I think the 1980's are going to be the decade when 2 plus 2 is seen to equal 4. This is a fact that no politician since World War II has come to grips with. I believe the 1980's are going to see a confrontation between what Americans would like ("peace and more good times"), what Americans need (sadly, more defense capabilities) and what America is going to get–which I believe will be a split economy. It's going to be "up with defense and down with consumerism." Maybe I should put it another way. It took Jimmy Carter the final 3 years of the 1970's to discover that he didn't know anything about the Russians. In the first 3 years of the 1980's, I predict that Carter (assuming he is re-elected) is going to discover that he doesn't know anything about economics.

My feeling is that the 1980's are going to be the years in which Americans finally have to face realities. What are these realities? (1) Russia, with the sacrifice of her economy, is now military leader of the world. (2) The US, over its head in debt, is going to have to sacrifice a good chunk of its domestic economy if it wants to remain a free power. (3) The current US concepts of Government spending, transfer payments, consumerism, deficit spending, are going to be revised drastically. They're going to HAVE to be revised. (4) For 25 years US Presidents have been blathering about "sacrifices" the American people will be called upon to make. So far, the so-called sacrifices (whatever they are) have been minimal to non-existent. In the '80's real sacrifices will have to be made.

Can any good come out of these events (assuming, of course, that I am correct)? My answer is, "yes." I think that good can emerge from two major areas. (1) I believe that Americans have put far too much emphasis on materialism at the expense of everything



(and I mean EVERYTHING) else. During the '80's, as people are called upon to really sacrifice and as the full extent of the problems are understood, I think the American people will become more spiritual. I think that spiritual goals will tend to push aside purely materialistic goals.

(2) I believe that the current era of lies and corruption may give way to an era of truth and decency. It's no coincidence that a recent American President destroyed himself through lies. It's no coincidence that Americans no longer believe in their leaders. It's no coincidence that inflation (monetary corruption) is one of the plagues of our times. It's no coincidence that "rip-off" (a euphemism for stealing) is now an accepted addition to every American's vocabulary. It's no coincidence that drugs (both of the pharmaceutical and the dope variety) comprise two of the largest industries in America.

Yesterday I walked down to the beach, and I sat on my favorite sand mound and gazed at the Pacific Ocean. I get a feeling of calm when I watch the Pacific, because I know I'm looking at something that's eternal, something that can't be tampered with or destroyed by man. The waves rolling irresistably to shore strike me as a version of truth, as opposed to the vanity, madness and stupidity of mankind. And I think of the US and what it could have been, and what is has (alas) become.

And the truth, the inescapable truth, is that our liabilities have careened off into space while our assets have risen slowly. Which is another way of saying that the US has moved into a state of near-bankruptcy (if we were a corporation we would be bankrupt). But there stands one irrefutable fact. If an entity has built massive debts, then in order to stay solvent it must either get rid of those debts or raise its assets to offset those debts.

The US is not going to get rid of its debts. The collapsing bond market is telling us that. In fact, the bond market is telling us that the debt (liability) side of the ledger is getting progressively more unmanageable. But the US owns the world's largest hoard of real money reserves–266 million ounces of gold. There is one way out of bankruptcy for the US' That is to revalue its assets (gold) upward and thus bring its asset-to-liabilities ratio into balance. Then it must stabilize its paper currency by making the dollar convertible into gold. If this was done, the dollar would turn rock-strong overnight, interest rates would collapse, and the world would return to economic sanity. This may happen somewhere ahead, although I doubt it. I doubt it because ignorant politicians will continue to fight the truth. And that is the area where chaos can occur.

Another and more plausible possibility is utilization of the IMF (which is US controlled) to mop up a large part of the billions of dollars that are currently in central banks around the world (this would be the so-called "substitution account"). According to this thesis, a new currency would be created that might be partly gold backed. This new currency would serve to get the dollar off the "reserve currency hook" and in so doing, the dollar (since it would be much scarcer) could be a wanted currency, at least for a while. Obviously, central banks (creditors of the US) would love this idea, since instead of holding paper dollars, they would hold a new IMF currency that would be more acceptable than dollars.

I feel that one of these two possibilities must materialize, either a gold backed US dollar or a substitution account and a phasing out of the dollar as a reserve currency in favor of a new reserve currency.

Implications for gold–unknown since at $600-800 gold has already discounted a great deal. Implications for the dollar–bullish. Implications for the stock market–bullish. Implications for the economy–neutral to bullish, since it could stave off collapse for years to come.

THE MARKET: Markets are made by the minds and actions of men and as such, markets reflect the prevailing psychology of men and women. If there is a prevailing psychology in today's markets, I would have to label it "semi-hysteria." Last month the NYSE recorded its greatest one-month volume in history–over one billion shares traded. The precious metals markets continued their frantic gyrations, bonds swooned, while selected issues on the AMEX and NASD popped and exploded like shooting stars. The natural gas sector of the utility indices pushed higher while the electric sector did nothing. The defense and metals issues on all exchanges did well (as did all natural resource stocks) while most other issues languished. The D-J Transportation Average rose to a record high, propelled by the asset-oriented components of the Average.

The split markets, the technical schizophrenia, shows up most dramatically in the various advance-decline lines. For instance, the A-D for the NYSE topped out in September, 1978 and that ratio is now mid-way between its 1978 high and its 1978 low. The AMEX A-D line topped in August of 1978 and the AMEX breadth has been deteriorating ever since.

To go back over a bit of history, the year 1973 was a vintage year for the main stock averages. That year the Dow Industrial Average recorded its all time high of 1051.70. That same year the Standard & Poor's 500 Composite hit a record high of 120.24. And in 1973 the broad NYSE Composite hit a record peak of 65.48.

The year 1980 will go into the record books, because on January 28 of this year the NYSE Composite closed over 66 to a new all time record. Neither the Dow nor the S&P 500 have yet confirmed. Last week the D-J Transportation Average rose to an all time record high, but the Industrial Average failed by a slight margin to confirm. This is an old story but one that is nevertheless well worth watching. The fact is that I have been placing a great deal of emphasis on the action of the Dow and whether that Average will be able to better its 1979 high of 897.61. I've explained that the Dow struck a peak of 1014.79 in 1976. It recorded a lower peak of 999.75 in 1977, a still lower peak of 907.74 in 1978 and a recent lowest peak of 897.61 in 1979. Thus, we have seen a series of four declining Dow tops in four years, a bearish series seen only twice before in history (during 1929 to 1932 and during 1937 to 1942). I've said that I would consider it discouraging if the Dow is unable to better its 1979 high. Conversely, if 897.61 is bettered (and the bearish series of declining tops is thereby reversed) I would consider it a major plus.

All last week we saw money pouring frantically into "asset" stocks from the oil issues to the metal issues to those rail issues which have large land holdings and assets in the ground. It's clear that the thinking is "as gold goes, so goes all other assets." Last week the D-J Transportation Average made history by closing over 300 for the first time. The huge volume and reticence of the D-J Industrial Average had me biting my finger nails.

Industrials closed out the week at 895.73, just 2 points from an upside confirmation. With this explosive close, it would seem that the confirmation (above 897.61) "should" arrive this week.

Frankly, I don't remember ever seeing a market like this one. Many major (and excellent) advisory services have just issued sell signals. The A-D ratio is very sluggish; there is much high-volume churning, specialist shorts are running high, new daily highs are lagging, but still the Averages keep plowing higher. I'll admit it–only my PTI has kept me from issuing a "take the money and run" bulletin. But the PTI (as we shall see in the next section) keeps moving higher. And I've said repeatedly, no market can fall apart in the face of daily new highs in the PTI.

PRIMARY TREND INDEX: The PTI (see chart below) isn't concerned with the news, it isn't concerned with the past, and it isn't interested in what I or any one else thinks or hopes. The PTI is a cold, remorseless gauge of technical market action. Any single day's action in the PTI is not necessarily significant, but it is the *accumulation* of PTI action, day after day, that tells the story.

I developed the PTI because I wanted a composite indicator that wouldn't fool me (as all *individual* indicators ultimately have done and will do). I also wanted an indicator that was based 100% on market action as opposed to market talk and market views. Finally, I wanted an indicator that couldn't develop a popular following, and this meant developing my own indicator, one whose construction I would not disclose (note: the PTI is my one and only market "secret").

The PTI works on an accumulation of daily points or a steady decline in daily points. No single component among the PTI's 8 components accounts for any more weight than any other. But when the PTI pushes steadily higher, this indicator is telling me that forces deep within the market are generating upward pressure–upward pressure that ultimately will be expressed in higher prices.

How do you know when the PTI is turning weak? Simple–it turns down! But it's the way the PTI goes down that is all-important. When the great primary trend of the market turns down, the PTI should sink relentlessly, rallying weakly during market rallies and then breaking to new lows as soon as the rally peters out and the primary downtrend reasserts itself. This kind of action is NOT happening now. As you can see on the chart, the PTI (despite all kinds of divergences in the bonds, market breadth, various averages) continues to push to new highs. This means that the main thrust of the market remains up, not down.

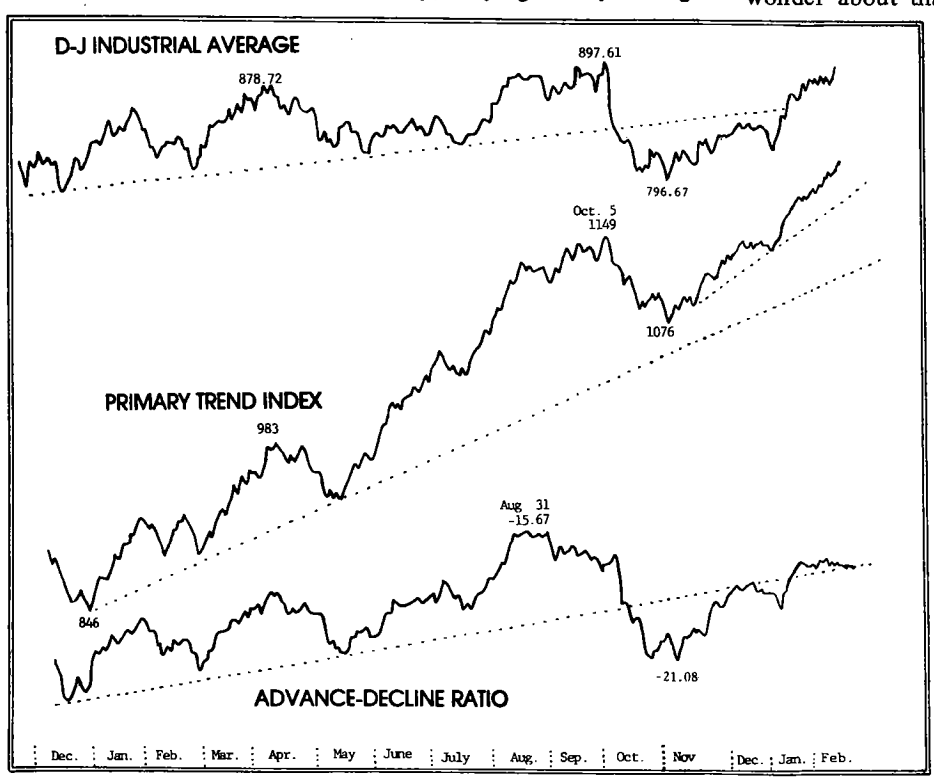
Studying this chart, the disparity between the PTI on the one hand and the Dow and the A-D ratio on the other hand is striking to behold. The powerful up-thrust of the PTI has literally dragged the Dow higher until finally the 897.61 high of 1979 is within easy striking distance.

Even more reluctant to advance is the A-D ratio (a proxy for the entire NYSE). But by fits and starts this index has been slowly lifting off its recent lows. Whether the A-D ratio can better its August high is another question, and undoubtedly the hundreds of interest-sensitive stocks on the NYSE have been exerting a "braking effect" on the A-D ratio.

To go back to the PTI, note that it has held far above its main rising trendline that started at the December, 1978 low of 846. A new and steeper rising trendline is drawn from the November 7, 1979 low of 1076. As long as these trendlines hold intact, the PTI is telling me that the technical forces of the market are continuing to produce bullish pressures.

Frankly, I may be mystified, but I've learned (or should I say I'm still learning) not to argue with the PTI. I don't try to explain it away, and I certainly won't try to rationalize it. But there it is for your information and for mine. When the technical underpinnings of the market finally weaken and then fall away, I have no doubt that action will register in the PTI. Any such change will immediately be brought to the attention of my readers.

COMMENT: Last week I spoke to Ned Davis (J.C. Bradford & Co.) who I think is one of the outstanding market analysts in the nation. Ned said, "You know, Dick, you used to talk about 'inflate or die' as the economic choice of the US, and I used to wonder about that. But it's come true; they're actually opting to keep inflation going at any cost."



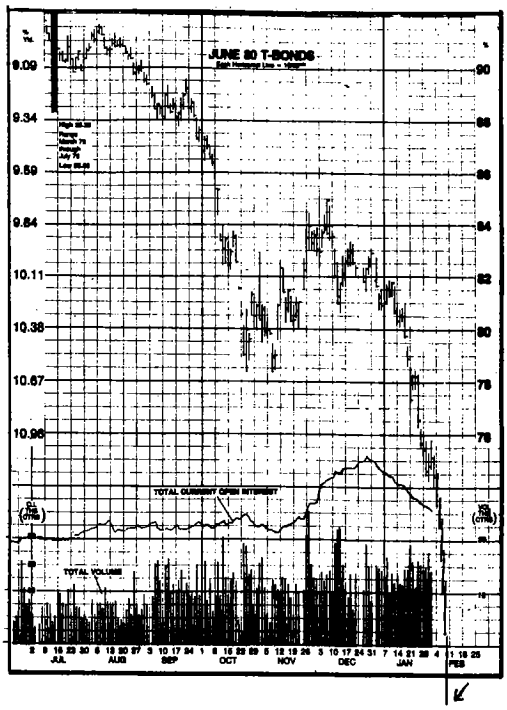
"Yeah," I answered, "It's hard to believe, but when the choices are made, each Federal Reserve Chairman, each Secretary of the Treasury, each President elects to keep the inflation going. And that would be bad enough," I continued, "but each one of them lies to the people. They talk about new strict budgets, cutting out the deficits, and then–more of the same. And I guess that's what we deserve, because we elect the liars, we elect the soft-soapers, we elect the men who produce the lies and destroy the currency. And to that extent, we're getting what we deserve."

And the fact is that the US is now on the inflation treadmill, and it can't get off without suffering severe pain. This is a fact that every politician seems to understand once he gets in office. And by then it's too late–he's already learned to be a hypocrite.

I've been wondering how I can best get this whole concept over to my subscribers. Maybe this will do it. I'm now looking at the monthly

chart book put out by the Federal Reserve Board. In 1960 the US Federal budget was just under $100 billion. By 1970 the Federal budget was just over $200 billion. Here in 1980 the budget will be over $600 billion! But this is the true horror: I estimate that the interest, THE INTEREST, on the Federal budget this year will be around $80 billion! Thus the interest on the debt is rising exponentially with the debt itself. And, in fact, the interest on the Federal debt is now almost as big as the whole budget was in 1960.

This chart shows what has been happening to the bond market. It has to be seen to be believed. The bonds have been crashing in every sense of the word. That crash has pulverized the market value of bonds and mortgages in institutions and private accounts across the nation. The losses are in the tens of billions of dollars! They are astronomical. Talk about how inflation can turn into deflation. Ask any bond dealer or mortgage holder.



I ask you to consider this: the total Federal debt is now $840 billion. This debt's average maturity is now around 3 years. With rates now near 12%, the debt will be rolled over (refinanced) at the highest costs in history. I figure that the US will be paying about $100 billion next year to carry its debt. That amounts to $2 billion a week. Ever hear of a nation being eaten up alive by debt and deficits? Readers, you're looking at it.

This whole process is the road to economic disaster. An accelerating debt and accelerating interest on the debt allow of only two choices: (1) rocketing inflation in which the debt is "reduced" by destroying the currency in which the debt is denominated, or (2) deflation, depression and potential bankruptcy.

Now obviously, any phenomenon such as the one I have described above is bound to stir up the emotions of investors. And the emotion that has been stirred is FEAR. Consciously or unconsciously every investor, every institutional manager, every portfolio manager must be asking himself, "How can I survive in the current atmosphere?" And the answer is ASSETS, "get into the assets that inflate with inflation!" The great majority of individuals and funds never bought gold, they never bought collectibles, they didn't buy real estate: they simply were not prepared for the kind of inflation we're witnessing today."

Now they suddenly see the picture of a mandatory military build-up on top of an already inflating economy. Remember, World War II arrived at a time when the economy was deflating. The military build-up of the 1980's is arriving at a time when ***inflation is already rampant.*** Result: Wall Street is rushing headlong into the asset stocks, oils, metals, book assets, rails with land.

In the last Letter (pages 2 & 3) I went over a number of market concepts including my "great circle of the Dow" thesis and the "head-and-shoulders" bottoms in the major Averages. I can't guarantee that this is what is now beginning to happen, but it's certainly possible. At any rate, please go back and re-read Letter 775. If the Dow goes over 897.61, then 907.74, if the A-D comes to life, if the PTI continues its relentless drive upwards, then I'll have to think the market is on its way up and out of that "great circle." The great rush out of debt and paper and into "something of value" will be on its way.

NOTES & QUOTES: Market Logic (3471 N. Federal Highway, Ft. Lauderdale, FL 33306) took Carter at his word. Carter is calling for an increase of 5% in real spending for defense in each of the next 5 years. Assuming a 10% inflation rate plus another 5%, this is what our defense spending will look like over the next 5 years. 1981 will be $144 billion, 1982 will be $165 billion, 1983 will be $190 billion, 1984 will be $219 billion and 1985 will be $251 billion. Grand total–just short of $1 trillion. Looks like a mighty interesting decade coming up, wouldn't you say!

* *

From our "Sign of the Times" department: In 1980, the US, for the first time in history, will not be the world's leading auto producer. According to production plans, Japan in 1980 will pass the US.

* *

Forecasting International (Arlington, VA) uses computer studies of 61 indicators (all vital signs and trends) to forecast the stability and viability of various nations. Most unstable nation is India (very poor, no industrial capabilities, enormous population). Second worst is Israel (roaring inflation, a brain drain, subject to fierce outside pressure). Third worst is Poland (creaking economy, marginal industrial producer). Some surprises: So. Africa is rated 7th most unstable because of its racial policy. Japan is rated 8th because 96% of its energy is imported and it has few natural resources. Mexico is 10 because of its huge destitute population. Number 12 is Brazil because of terrorism and a brutal junta. Three years ago Forecasting International's computer said that Iran would fall under a radical Islamic revolution. They were right on target.

* *

The problem: Sometimes the simple fundamentals show up a problem and cut through all the bunk and malarky. Consider this: the US produces almost 9 million gallons of oil a day, but it consumes nearly 20 million barrels a day. Russia produces about 12 million barrels a day, but uses less than it produces. Therefore, Russia is now a net exporter of oil. BUT...Russian consumption is rising and Russian oil production is sliding. Experts predict by the mid-1980's or before, Russia is going to need more oil.

The confrontation: Russia is not too far from the greatest oil reserves in the world in the Mideast. And the US is an ocean away.

* *

My old friend (high school days) Joseph Kraft is now a nationally syndicated columnist. He started out as a Carter man, but that's faded away. Joe is writing some of the best stuff in the business, and I include these excerpts from last week's Los Angeles Times column:

On Jan. 23, in the State of the Union message, the President engaged the deterrent. He said: "Any attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force."

On Jan. 29, speaking to a group of editors, Carter conditioned U.S. deterrence on allied cooperation. He said: "I don't think it would be accurate for me to claim that this time or in the future we expect to have enough military strength and enough military presence there to defend the region unilaterally."

My impression, however, is that the confusion expresses a deeper reality. I think political requirements obliged the President to make a strong stand in his State of the Union message. Believers in that position — notably Mr. Clifford and Dr. Brzezinski — tried to hammer it home as they could in India and Pakistan.

But the President and his closest advisers — Secretary Vance and Secretary Brown — have no stomach for striking a deterrent posture. They would rather play it by ear, and make accommodation.

So they are trying to back down from the Persian Gulf commitment much as they have done elsewhere around the world. Which confuses everybody, especially the Russians who are at once more tempted and better placed to pursue dangerous games.

THE SELF' THE MARKETS: The business of markets is like the business of life. There is a meaning and purpose in both. One of the great truths (shocks) which I had to learn in this business is that not everyone is meant to make money in the markets.

"What," you retort, "you write a market letter, and you have the gaul to tell us that not everyone can make money in the markets!" That's exactly what I said. Not everyone can function in the markets. I know men who have studied the markets for years, but they could never operate successfully in the stock market, the commodity market or any other market. There is nothing ridiculous or wrong about this. What is wrong is NOT RECOGNIZING this, not experiencing this.

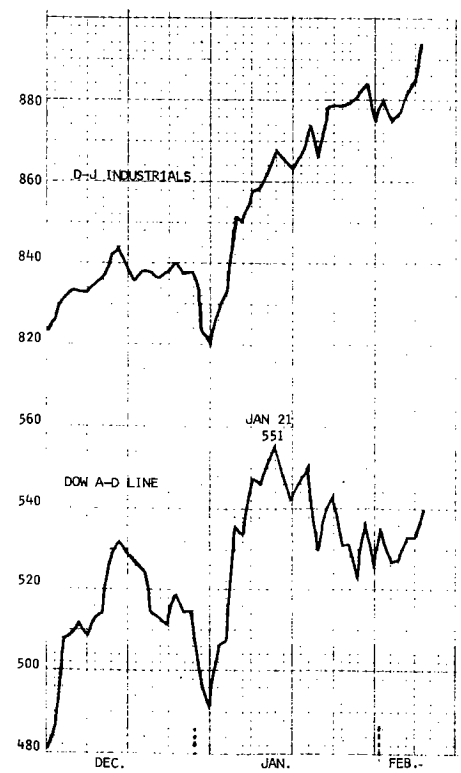
Maybe this person is supposed to be a fine teacher ABOUT markets. Maybe this person is supposed to pursue some other line of work, real estate, farming, construction, astronomy. But it is vital to recognize your ability. And it is also very important to experience whether you are supposed to succeed at something. It would be absurd for you or me to decide that we are going to be professional boxers. Did it ever occur to you that it MIGHT BE just as absurd for you or I to "decide" that we were going to be successful at the very difficult, very demanding business of investing?

What does someone do who does not have the ability, or is not fated to succeed in investing? My unhesitating advice is—"Stay out." Put your money in T-bills up to say 95% and if you insist, dabble in the markets with the remaining 5%. But above all, recognize the fact (the fate) that you are not meant to operate successfully in the markets.

I have never written about this before, but I would say that it applies to many of my subscribers. And it would save so much agony, so many losses if people would only stop telling themselves, "I too can be a successful investor and run up constant profits." The stark fact is that not everyone can! I have many, many subscribers (businessmen, lawyers, students) who read these reports simply because they wish to keep abreast of the markets for their own interest and edification. They never go into the markets. These men and women have recognized their strengths and weaknesses, and I take my hat off to them.

The question might be asked, "All right, I've never been successful at the stock market, I can't make a nickel in gold, I've lost my shirt in commodities. But what's wrong with letting so and so manage my money for me?" That sounds good on the face of it, but this is what I've found: if you're really not meant to make money in the markets, then that "other person" whom you choose to manage your money is probably not going to make any money for you either.

Why is this? My only explanation has to do with the law of karma, which I happen to believe in. The law of karma says that everything good you do comes back to you as good, everything bad you do comes back to you as bad. Perhaps in this life or an earlier life (of which you aren't aware) you had some dealings that were greedy, dishonest or harmful. By karmic law this may mean that you will not have success in the markets in this lifetime or at least for an extended period of time. That may sound mystical, outlandish or even crazy to many of my readers. But I happen to believe it, and if that makes me a kook, so be it. End of lecture.



LATE NOTES: The Dow ran right up to 895.73 on Friday, February 8. This was just two points below the 897.61 peak of 1979. But the action was basically an orgy of buying in the oils, and the breadth indices are now all lagging badly. I include here a chart of the Dow and the A-D line for just the 30 Dow (Industrial stocks). What you see here is a very rare divergence, the most dramatic I have seen in the 10 years I have been keeping this indicator.

One of the things I have always watched for is a non-confirmation in the Averages accompanied by very heavy volume and divergence in the breadth measurements. Well, now we have it, and

it's thrown a scare into me. This whole period may represent a headlong rush out of cash and into "things" and there is undoubtedly more fear about the currency than at any time since the Civil War. Nevertheless, I like the "gears" of the market to mesh, and they are doing anything but that now.

The NYSE specialists are shorting rather heavily now, and they don't tend to be wrong for long. If the specialists weren't fairly adept at staying on the right side of the market they'd shortly be wearing patched pants and toeless shoes, and the one's I've known have always been natty dressers. On the other hand, the odd lot shorts tend to be the most wrong element in the market, and the odd lot shorts are pretty thin now. I keep a *ratio* of the specialists' shorts to the odd-lot shorts, and the latest 5-week average of this ratio is 126. This means that the specialists have been putting out more shorts than the odd-lotters, a rather unusual situation, and my feeling is that if the specialists are that queazy and the odd-lotters are that confident, this market could hand the bulls a surprise.

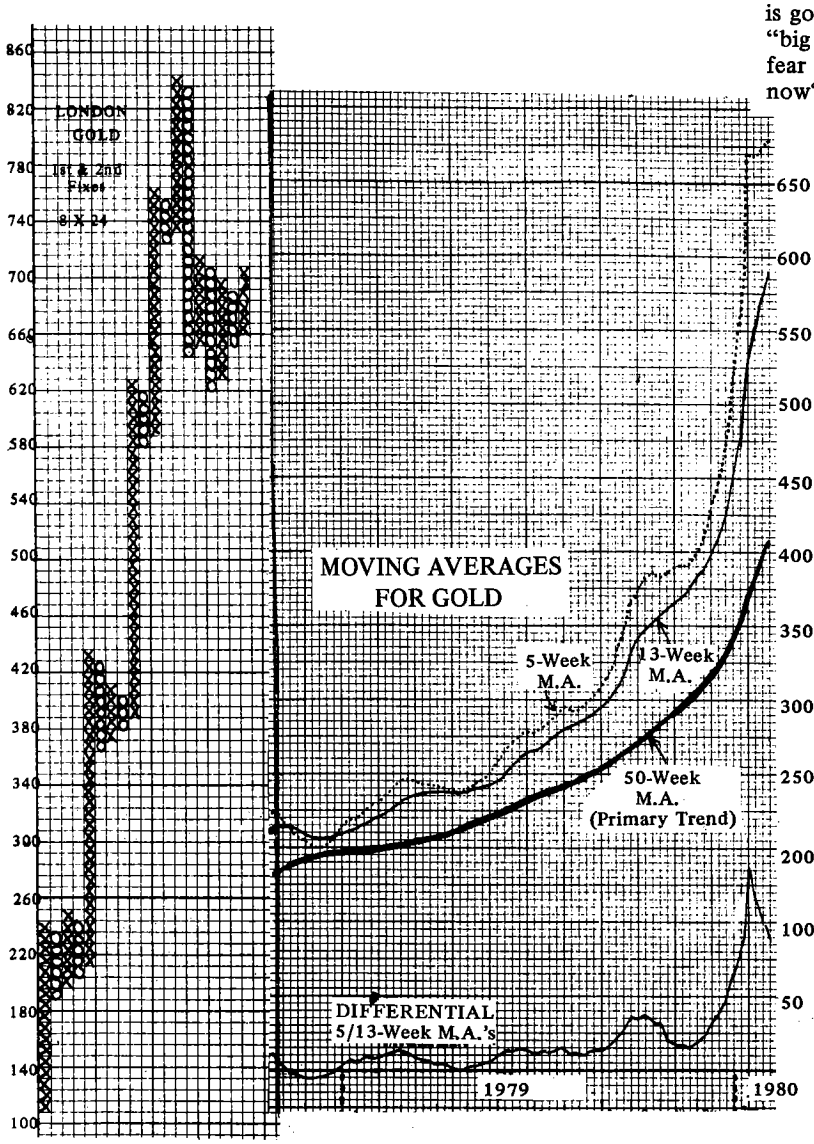
STOCKS: I did have a short list of stocks I liked such as Portec and Dow Jones and Telex, but I'm too bothered by this market action–so my suggestion at this time is: "Wait, let's see what this market's got on its mind. There's too much hysteria to buy oils and metals and too little interest in anything else."

GOLD: What's gold worth? The old adage runs, "An ounce of gold over the past two hundred years has always bought a good man's suit." And it's true. Back in the 1920's, you could have bought a suit for $20, and the price of gold ran at $20.66. During the '30's and '40's you could have bought a suit for around $35. As I remember, I paid about $70 for a one ounce "US Double Eagle" around 1968, and that could have bought a suit at that time. Today, an ounce of gold runs over $600, and that, wait a moment, is not the price of a good suit. By this criterion, gold is over-priced by between $100 and $200 (depending where you shop).

Professor Roy Jastram (UC Berkeley) in his book "The Golden Constant" noted that gold prices over the past four centuries pretty much matched the index of wholesale commodity prices. SInce 1650, any time there has been a parting of the ways between gold and commodities they have ultimately come back together. Gold now sells at three times the producer price index. If gold were to return to the level of commodity prices, it would fall to 230. Of course commodities could triple, but I doubt if they will.

But hold it. Sooner of later, if the dollar is to be worth anything, it's got to be gold backed. If the US was to provide just 50% gold backing for its current M-1 money supply, the US's 263 billion ounces of gold would have to sell at $728 an ounce. With 100% backing for the currency (I doubt if we'll ever see that) gold would have to sell at $1456 an ounce!

What's gold worth? I'd say it's worth between 230 to 750 an ounce (median is $490) plus a fear quotient based on whatever is going on in the world that is capable of scaring the hell out of "big money." Today, between inflation and the Russians, the fear quotient is running high. What will it be six months from now? Your guess is as good as mine.



In this Letter I'm introducing the most compressed point & figure chart of gold that you've yet seen, an 8 x 24 chart. Each box on this chart equals 8 points, and only rallies or declines of 24 points or more show on the chart.

What we see here is an advance to the all-time high of 850, then a violent decline to 652, a new rally to a lower top at 716, another decline and then a third rally to a still lower top of 708. So at this particular time we can't tell whether gold is carving out a pattern of declining tops or whether we are building a new base (with a low at 628) for another try for the high.

A bullish signal for gold would be a rally to 724 (thereby bettering the last minor peak). A bearish signal would be a drop to 652 (taking gold under its last minor low). A decline to 612 would look quite bearish and suggest that a major top has formed.

Now turn to the chart of the three exponential moving averages (MA's) of gold. The 5-week MA now stands at 680. The 13-week MA stands at 591 and the 50-week MA stands at 408. At its strongest (early-January) the 5-week MA was rising at about 45 points a week. But since January 18 the 5-week MA has only gained 10 points. This loss of strength is shown at the bottom of the chart on the line which measures the weekly point difference between the 5-week and the 13-week MA. This line hit its peak on January 18 at a 138 point spread. Last week the spread had decreased to 89 points.

IF, and I say "if" gold is weakening, the spot price will start sinking below the 5-week MA. Thus, a spot price of below 680 will be an indication of potential weakness for gold. So far, all we've seen is hesitation, but it's been some time since we've even seen hesitation in the yellow metal

NEXT MAILING: February 27